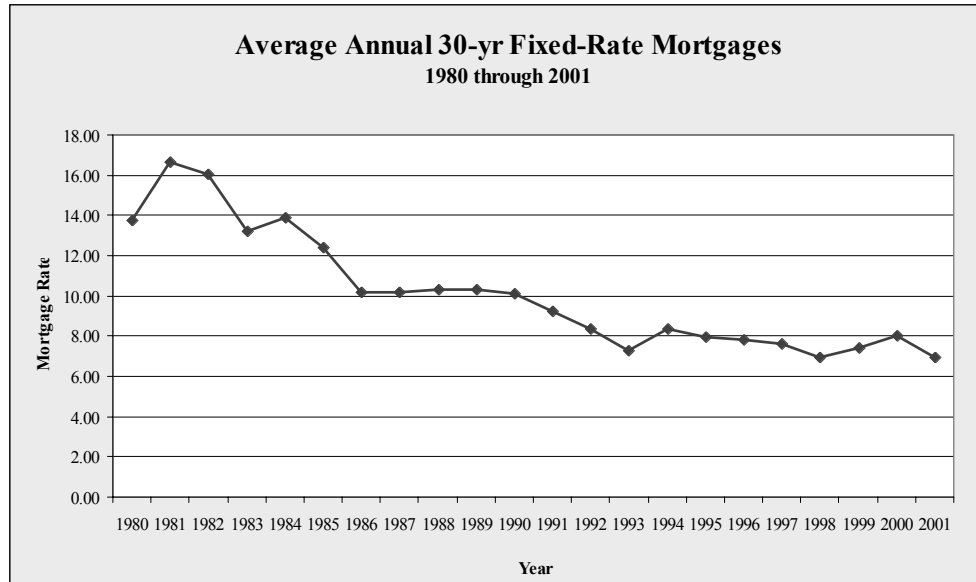


Home mortgage rates have been at or near historical lows since the mid-1990s. The result is that, compared to the 1980s and early-1990s, home ownership is affordable to a larger pool of households. Also, households are able to purchase larger and higher priced homes. This chart highlights the steady decline in home mortgage rates since the early-1980s, when rates peaked at above 16%, to 2001, when rates averaged 7%.



Because home mortgage rates are near record lows, any change is likely to be an **increase**. The primary effects on the housing market by an increase in rates are as follows:

First-time homebuyers and others seeking moderately priced homes would feel the greatest impact because most of these buyers have very little down payment money and must finance nearly the entire cost of a home. Because of higher rates, many first-time buyers would not income-qualify for a home mortgage sufficient enough to purchase an entry-level home.

The move-up and downsize (typically empty-nesters) markets

Rate	Loan Amount	Home Value	Qualifying Income	Mo. Payment
7%	\$150,000	\$187,000	\$53,000	\$1,240
10%	\$150,000	\$187,500	\$72,500	\$1,690
16%	\$150,000	\$187,500	\$111,000	\$2,590

would not be as greatly impacted. Most of these buyers have equity in their existing homes and also substantial savings that they can use toward the purchase of their new home, and thus do not need as much financing. This housing market would slow, however, because potential buyers would have some increased difficulty in selling their existing homes.

Demand would not decline as much for mid-range homes as for entry-level homes. A greater percentage of households in the market for mid-range homes could take on a greater housing cost burden and still be under the

qualifying cost burden required by lenders.

With some households priced out of the for-sale housing market by higher home mortgage rates, demand for rental housing would increase.

Since 1983, Maxfield has been helping cities and municipalities throughout the upper midwest plan to meet their housing needs. If you would like information on how Maxfield can help you make your planning decisions, or if you would like to be excluded from future editions of Maxfax, contact Jay Thompson at 612.904.7973.